MICHIGAN TOWNSHIP PARTICIPATING PLAN

AUDITED FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

MICHIGAN TOWNSHIP PARTICIPATING PLAN

TABLE OF CONTENTS

UHY LLP
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Michigan Township Participating Plan

We have audited the accompanying statements of financial position of the Michigan Township Participating Plan, (a Michigan Public Act 138 entity), as of June 30, 2008 and 2007, and the related statements of revenues, expenditures and net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Township Participating Plan as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

UHY LLP

Southfield, Michigan
October 3, 2008

MICHIGAN TOWNSHIP PARTICIPATING PLAN

(a Michigan Public Act 138 Entity)

STATEMENTS OF FINANCIAL POSITION

	June 30, 2008	June 30, 2007
ASSETS		
CURRENT ASSETS		
Cash in bank	**$ 985,969**	$ 797,541
Membership fees receivable	**21,255**	31,590
	$ 1,007,224	$ 829,131
LIABILITY AND NET ASSETS		
CURRENT LIABILITY		
Premiums and accounts payable	**$ 969,107**	$ 791,079
NET ASSETS	**38,117**	38,052
	$ 1,007,224	$ 829,131

See notes to financial statements.

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF REVENUES, EXPENDITURES AND NET ASSETS

	For the years ended June 30,			
	2008		2007	
	Amount	Percent of Net Contributions from Members	Amount	Percent of Net Contributions from Members
Gross insurance premiums	**$ 28,321,033**		$ 29,817,806	
Less agent commissions	**3,265,836**		3,440,393	
Gross contributions from members	**25,055,197**		26,377,413	
Less administrative fees to plan administrator, claims and risk control	**4,564,034**		5,095,618	
Expense for reinsurance	**20,195,153**		20,978,960	
	24,759,187		26,074,578	
Net contributions from members	**296,010**	**100.0** %	302,835	100.0 %
Operating expenses:				
Advertising	**83,450**	**28.2**	81,062	26.8
Travel and meetings	**116,026**	**39.2**	77,608	25.6
Reinsurance treaty	**-**		70,000	23.1
Newsletter publishings	**25,000**	**8.4**	23,000	7.6
Professional fees	**35,928**	**12.1**	20,313	6.7
Actuarial costs	**26,500**	**9.0**	18,000	5.9
Risk control	**2,610**	**.9**	3,570	1.2
Insurance	**4,400**	**1.5**	-	-
Office supplies and expense	**2,031**	**.7**	1,308	.4
	295,945	**100.0**	294,861	97.3
Excess of revenues	**65**	**-** %	7,974	2.7 %
Net assets, beginning	**38,052**		30,078	
Net assets, ending	**$ 38,117**		$ 38,052	

See notes to financial statements.

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF CASH FLOWS

	Years ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	**$ 28,331,368**	$ 29,810,396
Expenditures to reinsurer, agents, administrator and other vendors	**(28,142,940)**	(29,833,526)
Net cash provided by (used in) operating activities	**188,428**	(23,130)
CASH, beginning	**797,541**	820,671
CASH, ending	**$ 985,969**	$ 797,541
RECONCILIATION OF THE EXCESS OF REVENUES TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues	**$ 65**	$ 7,974
Adjustments to reconcile the excess of revenues to net cash flows from operating activities:		
Changes in:		
Membership fees receivable	**10,335**	(7,410)
Premiums and accounts payable	**178,028**	(23,694)
Net cash provided by (used in) operating activities	**$ 188,428**	$ (23,130)

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these financial statements. The policies conform to accounting principles generally accepted in the United States of America and the procedures provided by the Michigan Department of Treasury as required under Section 124.8(2) of the Michigan Compiled Laws and have been consistently applied in the preparation of the financial statements.

Plan Operations

The Michigan Township Participating Plan was established April 1, 1985, pursuant to laws of the State of Michigan which authorize local units of Government to exercise jointly any power, privilege or authority which each might exercise separately. The purpose of the Plan is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operations of its members; and to defend and protect any member of the authority against liability or loss. The powers, duties and the described activities of the Plan are not intended to constitute the issuance of a policy of insurance. The members intend, in the creation of the Plan, to establish an organization for joint risk management and have not created as between member and member any relationship for the debts of or claims against any member.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Plan generally recognizes revenue when persuasive evidence of an arrangement exists, service occurred, the fee is fixed or determinable, and collectibility is probable.

Concentration of Credit Risk

The Plan may, from time to time during the years covered by these financial statements, have bank balances in excess of FDIC insured limits. Management has deemed this as a normal business risk.

Income Taxes

The Plan is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. This law allows local governmental units to provide joint funding for risk management and self-insurance purposes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

A ruling has been received from the Internal Revenue Service stating that the Plan is a corporation in form but the activities are not subject to taxation, therefore no provision has been made for income taxes.

Advertising

Advertising costs are expensed as incurred.

NOTE 2 – SELF-RETENTION AND REINSURANCE

The Michigan Township Participating Plan, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Township Participating Plan. Due to this reinsurance purchase, there is no pooling of risk between members. The Plan has protected itself in the event reinsurance becomes uncollectible by purchasing a reinsurance treaty for uncollectible reinsurers.

During the years ended June 30, 2008 and 2007, gross member assessments written were $28,321,033 and $29,817,806, respectively. The amount of member assessments paid to reinsurers was $20,195,153 and $20,978,960, respectively. There were no member assessments assumed from other entities and the net amount of member assessments retained was $296,010 and $302,835, respectively.

The Michigan Township Participating Plan chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amount, which vary from member to member.

The Plan had entered into a multi-line three year reinsurance contract with Montpelier Re Holdings Ltd. (Montpelier) on April 1, 2005. Under the provisions of the contract, Montpelier could elect to renew for an additional three years effective April 1, 2008. During the year ended June 30, 2008 this election was exercised and the contract renewed. The contract contains a provision stating that Montpelier has the option to cancel the contract effective at the immediately succeeding March 31, by giving at least 90 days written notice, in the event that the Plan's annual actuarial report indicates that the ultimate loss and loss adjustment expense ratio for the accident year ending June 30, 2009, and each subsequent fiscal year ending June 30, is 75% or greater. In the event the Plan's loss ratio exceeds 75% and Montpelier elects not to renew the contract for the subsequent year, reinsurance coverage for all policies in force would not be affected as Montpelier is obligated to run off all in-force policies through their expiration. The actuarial report showed that the results for the accident year ending June 30, 2008 was less than 75% and thus this election did not apply.

NOTE 2 – SELF-RETENTION AND REINSURANCE (Continued)

An additional provision of the multi-year reinsurance treaty stated that Montpelier could cancel if there was a material change in ownership or management of the Plan, including a change in the underwriting manager (Kenrick Corporation) without prior consent of Montpelier. This provision was required to assure consistency in management and in the processes and procedures that have historically been used to generate the Plan's loss results. In the event that a material change did occur, the Plan would need to obtain the consent of Montpelier prior to the change, or negotiate alternate reinsurance contracts.

NOTE 3 – UNRECOVERABLE REINSURANCE

The Plan entered into a reinsurance agreement on June 30, 2003 with Motors Insurance Corporation, a subsidiary of General Motors, to provide protection to the Plan members in the event that the Plan had difficulties in the collection of claim recoverables from one or more of the reinsurers. At June 30, 2008 and 2007, this unrecoverable agreement had a limit of $2,774,418 and $2,611,940, respectively. This agreement allows the Plan the option to increase the limit of protection through additional premium payments.

NOTE 4 – INCOME AND EXPENSE RECOGNITION

As discussed in Note 2, the Plan does not operate a risk pool, but provides conventional insurance protection and reinsures these coverages one hundred percent. As such, when contributions are received from members, they are immediately turned over to the Plan administrator for remittance to reinsurers, less administrative fees, on a timely basis. During the years ended June 30, 2008 and 2007, the costs for risk control and claims administration were included in the rate paid to the administrator.

NOTE 5 – PLAN TERMINATION

While the board is not presently considering Plan termination, the Plan may cease its activities upon a three-fourths vote of the members to such effect. The Plan shall be administered by the Board of Directors holding office on the effective date of the termination until all of the Plan's affairs are completed.

NOTE 6 – LOSS RESERVES

The Plan has reinsured one hundred percent of its loss reserves and consequently has not reflected a liability for loss reserves on its statements of financial position.